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TWO DOLLARS

Y FORECAST: RV MAKERS FORESEE A GOOD YE

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V BUSINESS

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ubts Micro Chassis Viability

In a blow to the hopes of the troubled micro-mini industry, engineers at Ford Motor Co., Dearborn, Mich., are now expressing serious doubts that a chassis based on the Ford Ranger minitruck can be developed into a viable chassis for micro-minimotorhomes.

Ford engineers are basing those second thoughts on the results of just-completed testing of an experimental micro-mini prototype developed jointly with Fleetwood Enterprises Inc., Riverside, Calif. The extensive testing, conducted this past summer and fall, included performance and crash tests on the chassis utilizing a fully equipped prototype micro-mini from Fleetwood. The Ranger chassis used in the tests had been outfitted with factory dual-rear wheels and had been given a gross vehicle weight rating (gvwr) of about 6,000 pounds.

At the outset of testing, Ford engineers had thought that 6,000 pounds was the minimum acceptable gvwr for a viable micro chassis. They also felt confident that this weight rating would be sufficient. Once test results were in, however, that opinion quickly changed.

Jerry Mittman, RV/OEM sales manager for Ford, said: "It looks as if the Ranger is simply not suitable for the kind of micro-mini that the RV manufacturers are now producing. In our opinion, they are no longer producing the vehicle that the micro-mini was intended to be. Rather, what they and their customers seem to want is a cheap Class C. It's just not possible to produce that kind of vehicle on a Ranger without coming up with a chassis rating of at least 6,800 pounds. We might be able to get the chassis certified up to 6,100 or 6,200 pounds, but there are just too many fundamental design limitations to go any farther."

Mittman added that the suggested alternative of utilizing a light cutaway van chassis, such as the discontinued E-250, "did not seem realistic." He noted, "We could perhaps produce that chassis, but it would have to be

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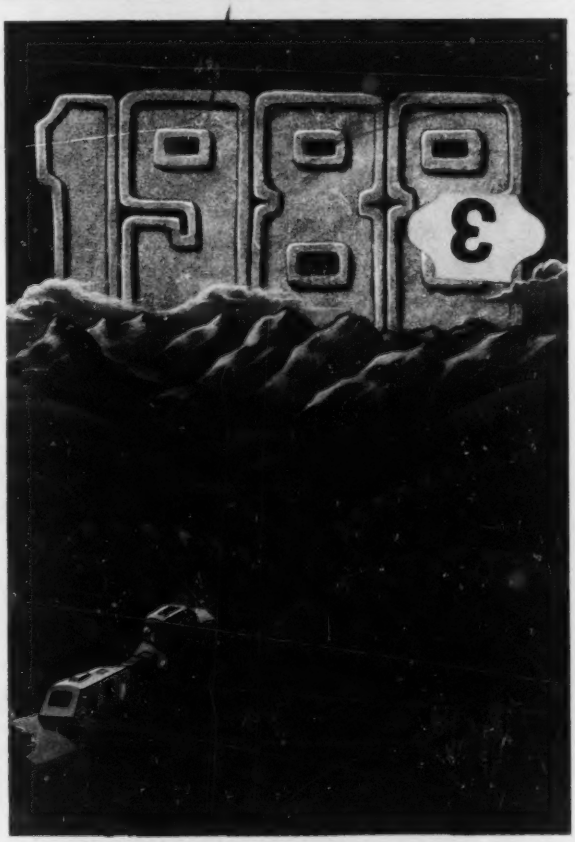

THE '88 OUTLOOK: *RV Business* has asked the industry players and the industry analysts to describe their expectations for 1988. In general, despite the storm clouds on Wall Street, RV makers and economists join in predicting a relatively sunny year for the industry.

Louisville Show Registers Dealer Attendance Gains

The RV industry gathered Dec. 1-4 in the friendly and familiar confines of the Kentucky Fair and Exposition Center in Louisville, Ky., for RVIA's 25th Annual RV Trade Show. It was a show with 94 manufacturers and 242 supplier companies exhibiting, at which business generally was brisk and outlooks decidedly positive for the upcoming year.

Attendance reached 4,472 dealers, 8,752 total. That's a 17%

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RVDA Resolution Questions Current New-Model Timings

An RVDA resolution approved by its board of directors Sept. 26 is asking RV manufacturers to re-evaluate the timing of their introductions of new models.

"Some RV manufacturers have moved up the date of introduction of new models significantly, bringing out their new lines as early as late spring or early summer," RVDA's resolution noted. "This can create a severe financial burden on the dealers, and RVDA requests that manufacturers re-evaluate these decisions on timing."

The resolution added that dealers usually reduce their inventories just before new models come out, in part because

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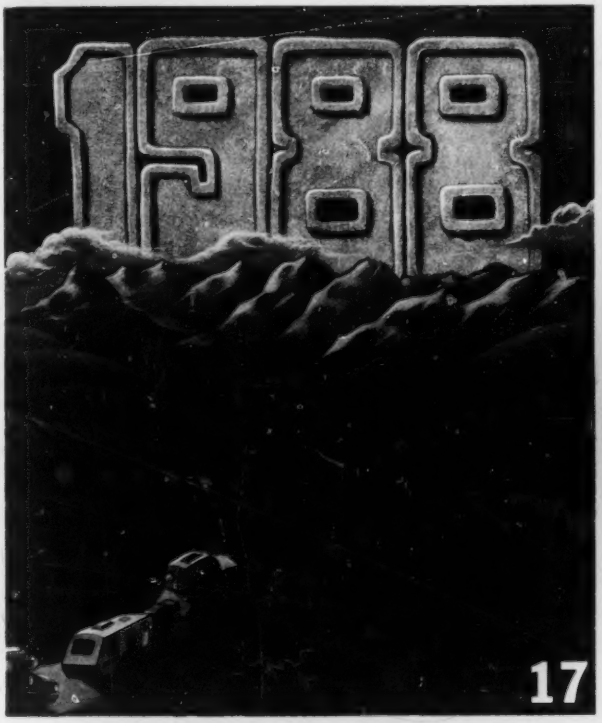

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COVER ILLUSTRATION: FRED SMITH

THIN ICE IN '88: WILL IT HOLD?

MORTON J. MARCUS

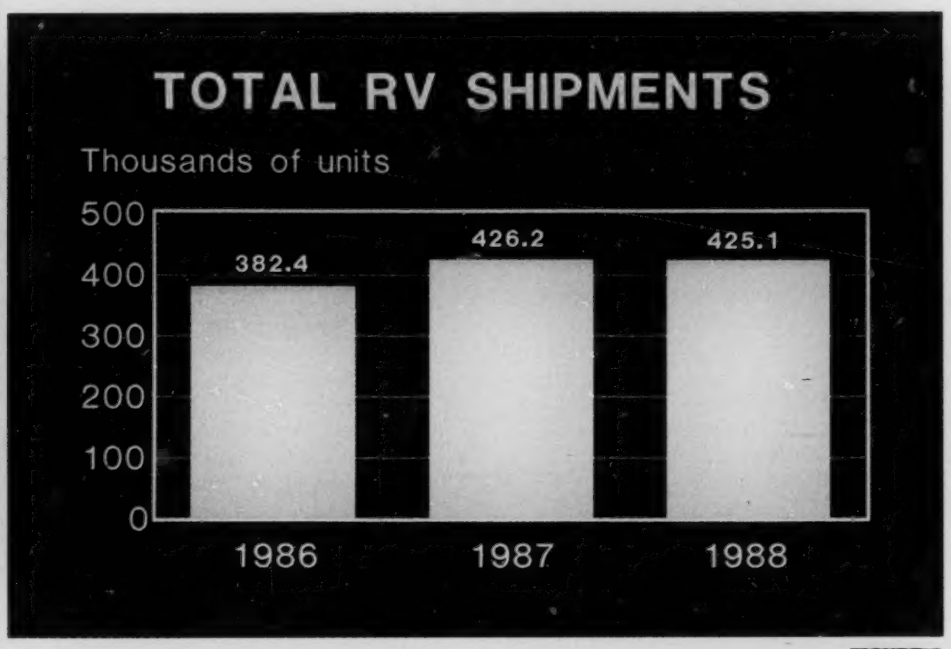

FIGURE 1

Crash! That is the word most often used by journalists and the public to describe the dramatic decline of stock prices, which took place on Oct. 19, 1987.

The October stock market has raised fears based on the specter of 1929 and the Great Depression which followed. What is not understood is that the Depression was the result of many events of which the market decline was only one. Lack of federal deposit insurance, lack of unemployment compensation and other social-welfare cushions, gross errors by the Federal Reserve System and restrictive trade bills that dried up trade all came into play. Today, we live in a different world; 1987 is not 1929.

The 1988 Outlook

For 1988, we see a strengthening economy *(see Table 1)* based on a determined effort by the Federal Reserve System to prevent a recession. This is a key assumption of our forecast for the year ahead. If the Fed permits the economy to slip, by failing to adopt an aggressive expansionary policy, an American recession will spread quickly throughout the world.

Real growth of the nation's gross national product (GNP) is expected to be down sharply in the last quarter of 1987 and then to rise throughout 1988, yielding a slightly stronger GNP growth (2.9%) in the year ahead than this year (2.7%).

One key to the improved growth of 1988 will be an increase in the growth rate of disposable personal income of American households. That increase will be based on lower tax rates arising out of the 1986 tax package. Consumer spending, particularly on durable goods, also should be stronger in 1988 than it was this year, after the initial fright of the stock market decline is weathered.

Investment by businesses and government spending should both rise slightly in 1988.

One concern everyone seems to share is the federal budget deficit *(see Table 2)*. Between 1986 and 1988, Congress will have cut the deficit by $60 billion in real, constant dollars, $100 billion in terms of nominal, current dollars. A deeper cut in the deficit would take too much spending out of the economy and could be destabilizing.

Interest Rates, the Dollar

For the next year, the Fed has the problem of walking a narrow line in its very large shoes. To keep the economy out of a recession, an expansionary monetary policy with low interest rates is indicated; to keep the dollar from falling too far, a somewhat restrictive monetary policy with higher interest rates is called for.

We are betting that the Fed will go for no recession and let the dollar decline still further. Our forecast calls for short-term interest rates (as indicated by the three-month Treasury bill rates) to bottom out in this last quarter of 1987 and then rise gradually during 1988. It will take a bit longer for other rates to follow that upward climb. The prime rate should bottom out in mid-1988. Long-term rates (as represented by AAA-rated corporate bonds) should have a moderate decline throughout the year.

Monetary policy also is likely to provide continued downward pressure on the dollar. A year from now the dollar should be worth about 10% less on international markets than it is today. The good result of this decline in the value of the dollar will be faster growth for exports than for imports. Next year, we expect exports to rise 2.5 times as rapidly as imports. This will strengthen American business and support American employment and consumer incomes.

Autos, Fuel, Prices

Our forecast is for lower total automobile sales and a smaller domestic share of the market. We expect lower sales because of the strong sales of recent years, which have put many new cars on the road and reduced the average age of the cars.

In 1986, auto imports were 28.2% of total sales; this year, they rose to 31.5%. The trend indicates a further rise in imports to 34.7% next year.

While we cannot predict what will happen in the Persian Gulf, there is little in world markets that is pushing motor-fuel prices upward *(see Table 3)*. This is good news for the RV industry.

The RV Forecast

The second quarter of 1987 was exceptional, with more than 135,000 units (seasonally adjusted) being shipped. Then manufacturers pulled back and shipped less than 92,000 units in the third quarter. This 32% decline in shipments seems to have been a wise readjustment to market conditions as interest rates rose in the summer months.

We are forecasting a modest

Table 1

Real Gross National Product
(seasonally adjusted at annual rates)

Year	Quarter	% Change
1987:	3	3.84
	4	1.84
1988:	1	2.34
	2	2.78
	3	4.12
	4	4.17

Table 2

Federal Budget Deficit
(in constant 1982 dollars)

Year	Quarter	Billions of Dollars
1987:	3	−150.90
	4	−161.60
1988:	1	−148.90
	2	−134.50
	3	−150.00
	4	−147.40

Table 3

Motor-Fuel Prices

Year	Quarter	% Change
1987:	3	17.85
	4	8.14
1988:	1	7.43
	2	5.42
	3	3.54
	4	3.85

increase (2.8%) in the fourth quarter, so that the year will end with more than 426,000 units shipped in 1987 *(see Figure 1)*.

Next year, with a falling prime rate in the first half of the year and only a modest rise in interest rates as the year progresses, with moderating increases in motor fuel prices, and with improved disposable personal income growth for consumers, we see these offsetting forces leaving total shipments virtually unchanged from 1987.

Our forecast is for 425,000 units in total for the industry in 1988. RVs are clearly a postponable purchase by wary consumers. Uncertainty in the public mind could retard sales despite good fundamentals. As the reality of no recession becomes evident, consumers should gain confidence and return in greater numbers to the showrooms and lots.

The second quarter of 1988 may be down by 24% from the high of that quarter in 1987; however, that should be offset by a 22% improvement in shipments in the fourth quarter of 1988 over the same quarter in 1987.

Different RV Paths

The pattern for the industry overall is little changed in 1988. That same year-to-year consistency is not to be found when we examine the industry in a bit more detail *(see Figure 2)*.

Total shipments should fall slightly next year because the very moderate increases in motorhomes and van conversions that are forecast for 1988 are more than offset by a decline in towables.

Nearly 60% of the growth in total shipments in 1987 was recorded by towables, which surged ahead by 25,800 units. This gave towables 37% of the total market in 1987, compared with 34% in 1986. At the same time, market share of van conversions fell from 47% in 1986 to 45% in 1987, even though that sector added more than 10,000 units to its 1986 total. Motorhomes, which advanced by nearly 8,000 units in 1987, also lost a market-share point to the towables during the year.

In 1988, towables are expected to be off by just 4,000 units from 1987, a decline of 2.5%. Despite this drop in 1988 shipments, towables will still be 16.5% ahead of 1986. This decline will be countered by a gain of 1,800 units, or 2.4%, in motorhomes. In addition, we expect van conversions to add another 1,100 units, or 0.6%, in the year ahead.

These gains are minor. The growth of motorhome shipments will be less than one-quarter of the growth experienced in 1987, while vans will have growth in volume that is less than one-tenth of the advance of 1987. Market shares will be realigned yet again to absorb the decline of the towables, but the differences are miniscule:

- Towables will drop one market-share point to 36%.
- Motorhomes will rise to a 18.4% market share.
- Van conversions will climb to a 45.4% share.

A Concluding Note

This forecast will be seen as most optimistic by those who believe that a decline in the stock market can only mean disaster for the national economy and particularly for susceptible industries like the RV industry. We acknowledge that there is some likelihood that we have misread the national mood. Few of us have seen economic events in our professional lives as dramatic as those of the past few months. None can say with certainty whether what we have observed will prove to be the undoing of the faltering economic expansion or the kick to move the nation onto a sustained path of prosperity. Δ

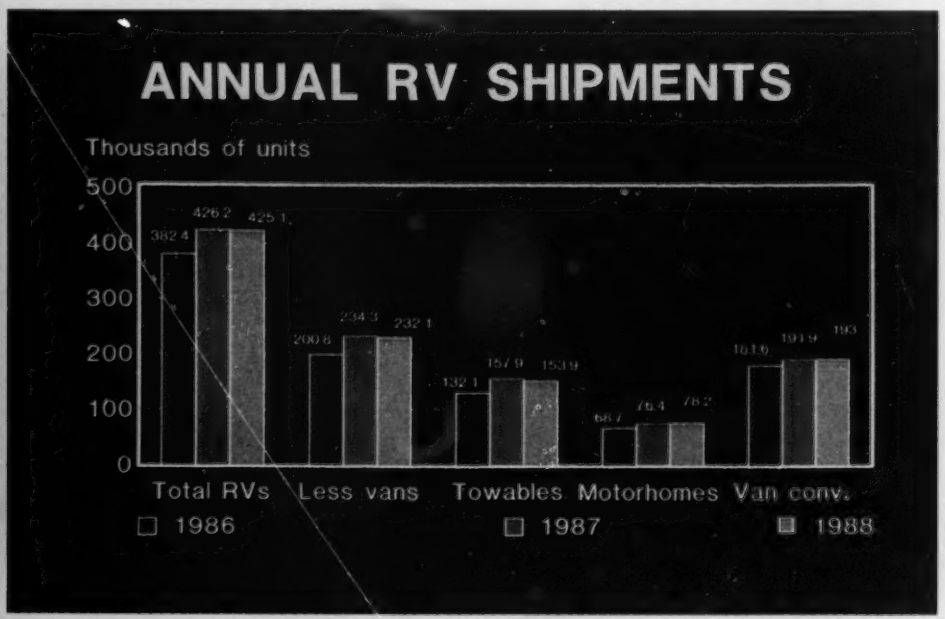

FIGURE 2

Summary:

- No recession in 1988, with real economic growth for the year to average better than 2%.
- Expansionary monetary policy will keep interest rates from rising sharply and help bring down the value of the dollar.
- Inflation will be kept below 5%.
- Total RV shipments will be only insignificantly lower than 1987.
- Towables will be the weakest in the RV market.
- Van conversions will be up slightly.
- Motorhomes will show a moderate increase in 1988. Δ

Morton J. Marcus is director of the Indiana Business Research Center in the Indiana University School of Business and Economic Consultant to TL Enterprises Inc, Agoura, Calif. This forecast is based on the "Quarterly Outlook" prepared by the Indiana Econometric Model Project, R. Jeffery Green, director. The RV forecast was produced by Lee A. Craig and Marcus.